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Appropriations Committee  
March 19, 2009

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[AGENCY 12]

JASON HAYES: (Exhibits 2, 3, 4) Okay, hello. Good afternoon, Senator Heidemann and members of the Appropriations Committee. My name is Jason Hayes, spelled J-a-s-o-n H-a-y-e-s, and I serve as the Deputy State Treasurer of Nebraska. I'm here today to discuss the fiscal needs of the State Treasurer's Office during the upcoming years. It was the State Treasurer's goal when submitting this budget request this year to submit a budget with a 0 percent growth rate. Given inflation, medical insurance increases, and the annual 2.5 PSL increase, the budget request this biennium reflects that goal. Since the end of the previous administration, a total of 4 percent has been cut from the State Treasurer's budget given our latest request and the total amount appropriated in fiscal year 2007. It is important to underscore this fact because our office continues to exceed the output and results achieved by previous administrations. Since January 2007, the Unclaimed Property Division has returned over \$29 million of unclaimed property, more than any previous State Treasurer during the same time period. The State Disbursement Unit, handling child support payments within the state, handles on average \$22.7 million a month in child support, representing an increase of 8.41 percent during the past two years. New accounts for the College Savings Plan have grown by over 27,000 accounts during the previous two years and the plan contains over \$1.5 billion in assets. During the same period, the Treasurer's Office has had staffing cuts, representing an office-wide personnel reduction of over eight full-time employees. The State Treasurer's Office is doing more, achieving greater results, and doing this all with less money and personnel. Preliminarily, additional cuts have been proposed by this committee and the State Treasurer believes those cuts may have unintended consequences in the necessary operations and functioning of the Treasurer's Office. Although the Treasurer has previously proposed cuts, he has done so only when he felt efficiencies could be achieved. He has done so when he felt that results could be enhanced even with those reductions. Given continued changes in the Treasurer's Office, as well as upcoming structural changes in the College Savings Plan, it is necessary for you to reconsider these proposed cuts and include them in the budget

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advanced to the full Legislature. First of all, I want to explain the need for transferring PSL salary from Program 24, the State Disbursement Unit. There is a need for additional PSL funding in Program 503 Treasury Management and Program 505, the Educational Savings Plan. Treasury Management staff have had increased responsibilities, for example, as we have begun a daily reconciliation between the NIS accounting system and state bank accounts. This is a necessary function of the Treasurer's Office and the Treasurer is of the opinion that the public will not be content with a delay in such reconciliation. The Treasurer's Office has had to absorb these costs and has taken over the bulk of the work done for this between our office and DAS Accounting. In addition, the Educational Savings Program has had one full-time employee during its nine-year existence, despite the fact that the assets have grown from nothing to in excess of over \$2 billion, and this was prior to the market crash last September. And is now...and the Cost Savings Plan now is a top tier national college savings plan. Both of these programs are self-sustaining, cash-funded programs with no money coming from the General Fund. The Treasurer has had a fiduciary constitutional duty to ensure that both programs are functioning properly. Please understand that an increase in PSL to these two programs does not mean the Treasurer intends to hire additional employees. But instead he will be able to allocate additional hours to employees who work between each program. What the Treasurer intended to do by the salary shift was to reduce General Fund dollars used to fund State Disbursement Unit employees in favor of funding two cash-funded programs which are in legitimate need of additional labor resources. This shift is vitally necessary, especially in light of the fact that the state has to go out for bid during the next two years to find a new program manager for the College Savings Plan, which is currently handled by Union Bank and Trust. And that undertaking alone will require more labor resources. Next there is a request for additional equipment, repairs, and maintenance for Treasury Management. Two of the for check encoding machines utilized are 12 years old. The other two machines are four and eight years old. Encoding equipment life span is generally ten years. Only one of the four encoding machines is image capable. As these machines continue to age without replacement, additional repairs and upgrades will be needed in

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order to ensure timely and efficient processing of checks, especially during the busy spring tax season. Treasury Management is a vital area of the State Treasurer's Office, managing approximately \$6.5 billion in receipts annually. And we must have adequate resources in order to handle all state government receipts and banking functions. The Treasurer has had to make sure that there will not be a breakdown or stoppage in this service area. The state is able to significantly reduce bank fees by encoding checks in-house rather than paying a bank to encode them. More importantly, the Treasurer's Office is able to increase the availability of funds for investment by managing our encoding work and splitting our encoding work by MICR line availability so the machines will electronically be able to process the checks by reading the routing numbers at the bottom of the checks. By upgrading the division software, we will be able to send check images electronically to all four of the state depository banks instead of just the two that we are currently transmitting deposits to. We will also be able to operate our main encoding machine more efficiently by utilizing it just for capturing the check images and to create the electronic cash letter. Transmitting all state deposits to the bank electronically will reduce in-transit money risks and allow for extended deposit deadlines during peak processing times. Now as I mentioned earlier, in Program 505, the Educational Savings Plan, we will be issuing an RFP this summer and rebidding the program manager duties currently in contract with Union Bank. This will be the first time the Treasurer's Office has done this in ten years and will require additional expense for legal services. The Treasurer wants to ensure that Nebraska finds a top-rate program manager to handle our top-rate College Savings Program. In the committee's first recommendation, our request was cut by \$13,000 in fiscal year 2010 and \$23,000 in fiscal year 2011. We are concerned that if we do not have adequate legal services budgeted during the next two years we will be unable to deliver on this goal in a manner that will be acceptable to Nebraskans. Please understand that this program is cash funded with money the state receives from plan distributors such as Union Bank, State Farm, and Invesco AIM. Any additional money spent in this program does not increase fees charged to College Savings Plan account holders. Those fees are fixed regardless of the budget set in this program. It is our hope that with a new contract in the upcoming

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year the fees assessed to account holders will substantially be reduced and bring them in line with current market fees charged by other College 529 Plans. Also because of recent changes to the State Farm/Oppenheimer component of the plan, we will have additional auditing expenses. We need the amounts for additional legal services as well as for the statutorily required auditing services submitted in the original budget request in order to fulfill our obligations. The State Treasurer will be unable to properly run this nationwide, nationally ranked 529 Plan without these necessary resources for both legal and auditing services. Next I want to discuss our request for the dues and subscription increases in Treasury Management, the Educational Savings Plan, and Unclaimed Property. The Treasurer's Office is a member of the National Association of State Treasurers or NAST. We have recently received a dues increase from NAST. Although the Treasurer is not overly pleased with this increase, this association is a vital resource of ideas, peer review training, and program evaluation that helps ensure the Treasurer's Office is running at or above the efficiency level of other treasurers offices nationwide. Similar to what the National Council of State Legislatures is to the Unicameral, or what the National Governors Conference is to Governor Heineman, this association provides routine training and assistance to all areas of the Treasurer's Office. We hope you can appreciate and recognize the need for the state's continued affiliation with this organization. And then finally, the Treasurer has requested additional amounts for travel in both Program 505, the Educational Savings Plan, and Program 512, Unclaimed Property. The Educational Savings Plan will require additional travel expenses in connection with the upcoming RFP process requiring anticipated on-site visits to evaluate the functionality of the top two final program manager bidders. The Educational Savings Plan budget is already stretched thin. In this program, we are unable to forgo any additional cuts to our budget request and we are unable to absorb these additional requests within the program's operating budget. With regard to the Unclaimed Property Division, treasury staff continue to work tirelessly in order to return unclaimed property to Nebraska citizens who are rightfully entitled to receive their property. In addition to statewide travel to reach Nebraskans outside of Lincoln and inform them of unclaimed property at various fairs and events, the office has undertaken audits of national

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banking institutions in order to ensure that money is not being withheld unlawfully from the state of Nebraska. Also considering the upcoming move of the State Fair from Lincoln to Grand Island, which is our largest outreach event, there will be additional travel expenses for both the Educational Savings Plan and the Unclaimed Property Division. We respectfully ask the committee to grant these original funding requests. And in closing, I hope I've been able to communicate to you on behalf of the State Treasurer the need of these vital funding requests, and I'm welcome to take any of your questions the committee may have for me. Thank you very much. [AGENCY 12]

SENATOR HEIDEMANN: Thanks, Jason. Senator Mello. [AGENCY 12]

SENATOR MELLO: Thank you, Mr. Smith, or Mr. Hayes, I'm sorry. I'm seeing someone else. I apologize... [AGENCY 12]

JASON HAYES: That's okay, no problem. [AGENCY 12]

SENATOR MELLO: ...for the testimony. And I guess I have a couple of questions that have come up. State Auditor Foley did an audit of the Treasurer's Office regarding some funds that were not appropriated in the general ledger I think it was stated. I have the letter here, February 17, 2009, in which he says in regards he made a recommendation that all amounts held as investments that are not recorded on the general ledger be accurately reported in the state accounting for inclusion in state financial statements. Your office's response was that the State Treasurer's Office Unclaimed Property Division has undertaken a thorough reconciliation for all stock and mutual fund records which, to our knowledge, have not been properly balanced for many years. Can you give more explanation how many years has this not been taking place? []

JASON HAYES: Well, and I may have to give you some additional information on that, but when Shane Osborn came into office, there was a desire to go through all the past investments and actually Alex Kauffman would be the best person to testify on that. But

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in order to make sure that we had a proper accounting of everything, we did ask the State Auditor to come in and do an accounting of that or an auditing of that. And although I don't have that report directly in front of me, I think it was really an attempt to just make sure that everything was, as a new Treasurer comes in, to make sure that he has a good handle on exactly what are any issues that need to be addressed.

[AGENCY 12]

SENATOR MELLO: Is that something you could provide the committee of a report on that? [AGENCY 12]

JASON HAYES: I would be happy to do that. [AGENCY 12]

SENATOR MELLO: That would be good. [AGENCY 12]

JASON HAYES: Sure. [AGENCY 12]

SENATOR MELLO: I guess the second aspect of the general audit is could you give us an update of what your office or what Treasurer Osborn's Office is doing to comply with what the State Auditor's recommendations were? [AGENCY 12]

JASON HAYES: We're fully undertaking all the recommendations by the Auditor's Office. And I believe that any issues that have been addressed or any issues that were raised have been addressed already. [AGENCY 12]

SENATOR MELLO: Okay, thank you. [AGENCY 12]

JASON HAYES: And I'll get that additional information for you. [AGENCY 12]

SENATOR MELLO: Okay, thank you. [AGENCY 12]

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SENATOR HEIDEMANN: Senator Nantkes. [AGENCY 12]

SENATOR NANTKES: Thank you for being here today, Mr. Hayes. I know you had the opportunity to join us last year during this agency's hearing. And I was just...I know the State Treasurer was ill last year so he was unable to come down and visit with this committee about the State Treasurer's budgetary needs. And I was wondering if you could provide some information about his whereabouts this afternoon. [AGENCY 12]

JASON HAYES: I actually know that...he was actually planning to be here today. He was out of the country last week, and he picked up a flu bug while he was over there. And I...you know, up until just a few hours ago he was planning to be here. That's, you know, and I spoke with the Fiscal Analyst about that. [AGENCY 12]

SENATOR NANTKES: He did have a press conference or some press events early in the Capitol this morning that I know he undertook. Is that right? [AGENCY 12]

JASON HAYES: And if this had been earlier, I mean, yes, he did. And that was communicated to him and we did weigh very seriously him coming to this committee hearing today. There certainly was not because of a lack of want of not, you know, being here. You know, he... [AGENCY 12]

SENATOR NANTKES: And I think, okay, thank you. [AGENCY 12]

JASON HAYES: And, you know, obviously, I understand. [AGENCY 12]

SENATOR NANTKES: Okay. I think the other thing that I wanted to visit about, according to the Department of Administrative Services annual budgetary report for year end 2008, when you look at the schedule of expenditures by major account category under the State Treasurer's Office from 2004 to 2008, we see a significant increase in the expenditures of that office, over 30 percent in that four-year period. And I'm just

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wondering, you know, basically what your general explanation would be for that dramatic of an increase in spending amongst your agency. [AGENCY 12]

JASON HAYES: I don't know if I'd be able to fully address the issues that were in the office prior to Shane coming into the office in 2007. I do realize that the State Disbursement Unit became part of the office for the processing of child support payments. And unless there's any other...that was the main structural change. Obviously, the Long-Term Care Savings Plan has been added. We haven't had any additional increases with regard to Treasury Management or College Savings Plan, and Unclaimed Property has remained about the same, if not a decrease in that area. [AGENCY 12]

SENATOR NANTKES: Okay. Thank you. [AGENCY 12]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 12]

SENATOR WIGHTMAN: Your written testimony and you stated that in your oral testimony as well, talked about the State Fair being your largest outreach event. Can you tell us what you do at the State Fair? [AGENCY 12]

JASON HAYES: We have our Unclaimed Property Division, a number of employees from that division and also our College Savings Plan director will go to the State Fair. And with regard to the unclaimed property basically as people come up they'll be able to go through the books to look, search their name for unclaimed property and then various filings can be processed then to initiate those unclaimed property claims. And that's just a great way to reach people at the State Fair to let them know unclaimed property, obviously, there are notices put in newspapers also; but this is another way to meet people directly on that. [AGENCY 12]

SENATOR WIGHTMAN: So it's kind of an educational event for the College Savings.



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[AGENCY 12]

JASON HAYES: Correct. And with the College Savings then, certainly people come up, have inquiries about how to sign up their child for a particular plan. And then we've got the paperwork there available to get them that information. [AGENCY 12]

SENATOR WIGHTMAN: More one-on-one opportunity I gather to meet with. [AGENCY 12]

JASON HAYES: Correct, correct. And not to make issue with regard to where the State Fair is going to be, but just that's going to be some additional costs. [AGENCY 12]

SENATOR WIGHTMAN: Thank you. [AGENCY 12]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 12]

SENATOR MELLO: Mr. Hayes, can you, on the unclaimed property background, can you give us a little bit more information of how much is in your budget to spend on television advertising for the unclaimed property and how much is that? I believe you get the money from the Unclaimed Property Division to pay for the advertising if I'm correct. [AGENCY 12]

JASON HAYES: Um-hum. [AGENCY 12]

SENATOR MELLO: But how much are you guys budgeting over the next biennium for those advertisements? [AGENCY 12]

JASON HAYES: I'd have to give you the exact amounts, and I'd be happy to get that to you by the end of the day. [AGENCY 12]

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SENATOR MELLO: Okay or just to the committee in general. [AGENCY 12]

JASON HAYES: Yeah. [AGENCY 12]

SENATOR MELLO: That would be great. [AGENCY 12]

JASON HAYES: Yeah. I have no issues with that. [AGENCY 12]

SENATOR MELLO: Thank you. [AGENCY 12]

JASON HAYES: Okay. [AGENCY 12]

SENATOR HEIDEMANN: Senator Nordquist. [AGENCY 12]

SENATOR NORDQUIST: Thank you, Mr. Hayes. Have you guys looked at or done any analysis or performance measurement on your outreach programs as far as TV ads versus newspaper versus Web site and kind of seen what you're getting the best bang for the buck? [AGENCY 12]

JASON HAYES: You know, I don't have any of those performance measurements put down. Obviously if a TV ad runs or newspaper ad is released, we're required statutorily to do those newspaper ads, of course. But it's just the volume of calls that come in afterwards. And certainly some of those ads are public service ads that are just run, you know, at 2:00 a.m. or whenever the company decides to put them on so. [AGENCY 12]

SENATOR NORDQUIST: And I realize you have to reach people through different medias. I just, you know, appreciate seeing or if you have any information on what the most effective ways are and if you guys are tracking that. I'd appreciate it. Thanks. [AGENCY 12]

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JASON HAYES: I'll be happy to get that information to you. [AGENCY 12]

SENATOR HEIDEMANN: Any other questions? Senator Nelson. [AGENCY 12]

SENATOR NELSON: Yeah. Along the unclaimed property here, Mr. Hayes, there's a comment here about that you've undertaken audits of national banking institutions. Some of us in the practice of law with the states and everything, we have a real problem with transfer agents and companies sometime. And so it's necessary if there's a possibility they haven't turned in property to the state of Nebraska then you have the ability to have an audit done or at least requiring. [AGENCY 12]

JASON HAYES: Right, or can track out an audit. And this is certainly an issue that we've been dealing with substantially over the past year is that there are these holding or transfer companies that maybe have a bad address of a Nebraskan. And so instead of undertaking, they'll send out three letters in an attempt to locate those individuals, but to the extent that they, I mean, how rigorous that attempt is, is questionable sometimes. And sometimes they'll just turn that money over to the state of Delaware because typically that's where corporations are incorporated. And then the money sits on Delaware books without necessarily it being known that they're from Nebraska. So we want to make sure that everybody is staying within the legal limits. And if there's property held by Nebraskans that they turn it over to the State Treasurer's Office. [AGENCY 12]

SENATOR NELSON: I think that's a valuable service and we appreciate it. [AGENCY 12]

JASON HAYES: Thank you. [AGENCY 12]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you. [AGENCY 12]

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JASON HAYES: Thank you. [AGENCY 12]

SENATOR HEIDEMANN: Is anyone else wishing to testify on Agency 12? Welcome. []

GARY KRUMLAND: (Exhibits 5, 6) Senator Heidemann, members of the committee, my name is Gary Krumland. It's spelled K-r-u-m-l-a-n-d. I am representing the League of Nebraska Municipalities. I just want to take an opportunity with the Treasurer to talk...just make a few comments about state aid to cities because that is listed under the Treasurer's Office. There are two things being handed out. One is a letter from the mayor of Omaha who wanted to address the committee and just ask that the committee sustain the state aid that we have been getting. The other is kind of a history of state aid cuts that...to cities that the cities have endured over the last or the early years from 2002 to 2004. And it kind of brings me to the specifics I want to talk about. In the committee's preliminary budget, there is a...shows an increase of \$520,000 to cities, state aid to cities. I do appreciate the committee including that transfer in there. And I know you probably understand where that comes from, but I would like just to make a couple of comments for the record. In 1989 there was a program put in that money from the cigarette tax was sent to cities for infrastructure. It was referred to the MIRF program. And generally it was \$3 million a year. When the state went into financial difficulties, the Appropriations Committee at the time looked at that fund and basically transferred the money from the cities to the state General Fund to deal with the economic problems. One problem that we ran into was that the city of Lincoln had bonded to build the F Street Rec Center and they pledged the proceeds from the MIRF funds to the bonds. And they were afraid that if that money went away the bonds may be in jeopardy and their rating may go away. So at the time, the Appropriations Committee kept \$520,000 in the MIRF program but reduced regular state aid by \$520,000 to make up for that. And then the rest of the money from MIRF went to the General Fund; \$520,000 from state aid went to the General Fund. But there was provision in state law that said when MIRF ended, which it does this year, that money

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would go back to the state aid program. So that's where that \$520,000 comes from. It's not an increase. It's just basically a correction that was made in the MIRF program in 2003. I just wanted to...appreciate, though, that the committee put that back in. I know when the Governor's Office preliminary budget came out it wasn't included, but it was a mistake the Governor's Office and the state Budget Office discovered that and made an effort to tell us that they would ask that that be included. So that's the main reason I wanted to come. I also say this may be the first year for a while, but we're not asking that the cuts that were made from 2002 to 2004 be restored this year because of the problems, but we would ask the committee to consider that they were cut a few years ago and never were restored, and so we're still dealing with the cuts from the last time. With that, I'd be happy to answer any questions. [AGENCY 12]

SENATOR HEIDEMANN: Are there any questions? Seeing none, thank you. Is anyone else wishing to testify on Agency 12? Seeing none, we will close the public hearing on Agency 12 and open up the public hearing on Agency 14, Public Service Commission. Welcome. [AGENCY 12]